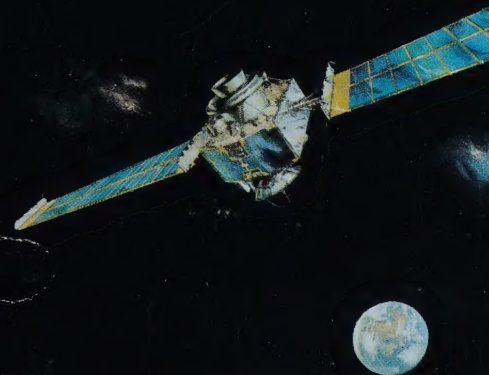


AR44

REED STENHOUSE
COMPANIES LIMITED



ANNUAL REPORT
1978



a decade as a
public company...
a century as
insurance professionals



The history of Reed Stenhouse Companies Limited spans over a century. The operations of its three founding Canadian insurance brokers – Reed, Shaw & McNaught; Osler, Hammond & Nanton Insurance Limited; and Cronyn, Pocock and Robinson Limited date back to the 1800's. On the cover is a photograph of the Covent Garden area in London, Ontario as it looked in 1852 when the oldest of these firms commenced business.

In the future, Reed Stenhouse Companies will continue an important role – innovating and developing as mankind, society and business progress. The company now provides insurance advice for programs related to space exploration as man endeavours to extend frontiers beyond the earth.

In 1978, the company's name was changed to Reed Stenhouse Companies Limited to reflect international associations and the outstanding contribution of A. R. Stenhouse Reed Shaw & Partners Ltd. since the merger five years earlier. The polar projection map on the cover is used by the Reed Stenhouse Companies as it has particular significance as a symbol of the company's global scope.

This is a photograph of The City Chambers in Glasgow, Scotland, at the turn of the century. A. R. Stenhouse & Partners Ltd. was established in that city in 1904 and subsequently expanded to become one of the most prominent British insurance brokers. In 1979, that company celebrates its 75th anniversary of operations.

a decade as a
public company...
a century as
insurance professionals

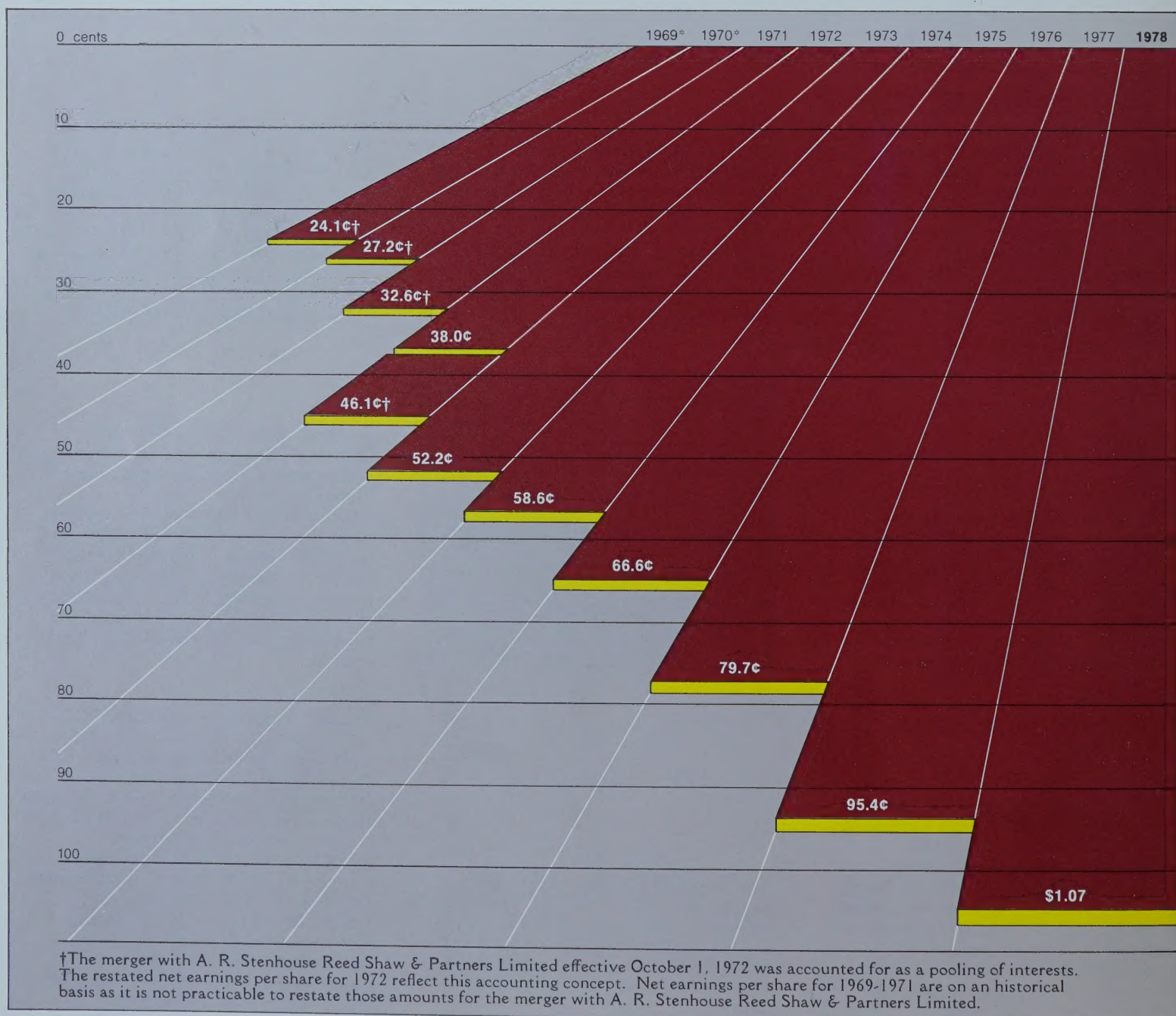
The Statue of Liberty – a famous landmark of the U.S.A. The first major expansion thrust into the United States was accomplished by the group in 1974. Activities in that country will provide a significant source of international growth.

The famous Sydney Opera House on the cover represents one of the proud achievements of Australia over the years. The first offshore expansion of A. R. Stenhouse & Partners occurred in that country in 1961. This was significant, for it heralded a program of international growth that has made the company, as now constituted, one of the largest brokers in the world.

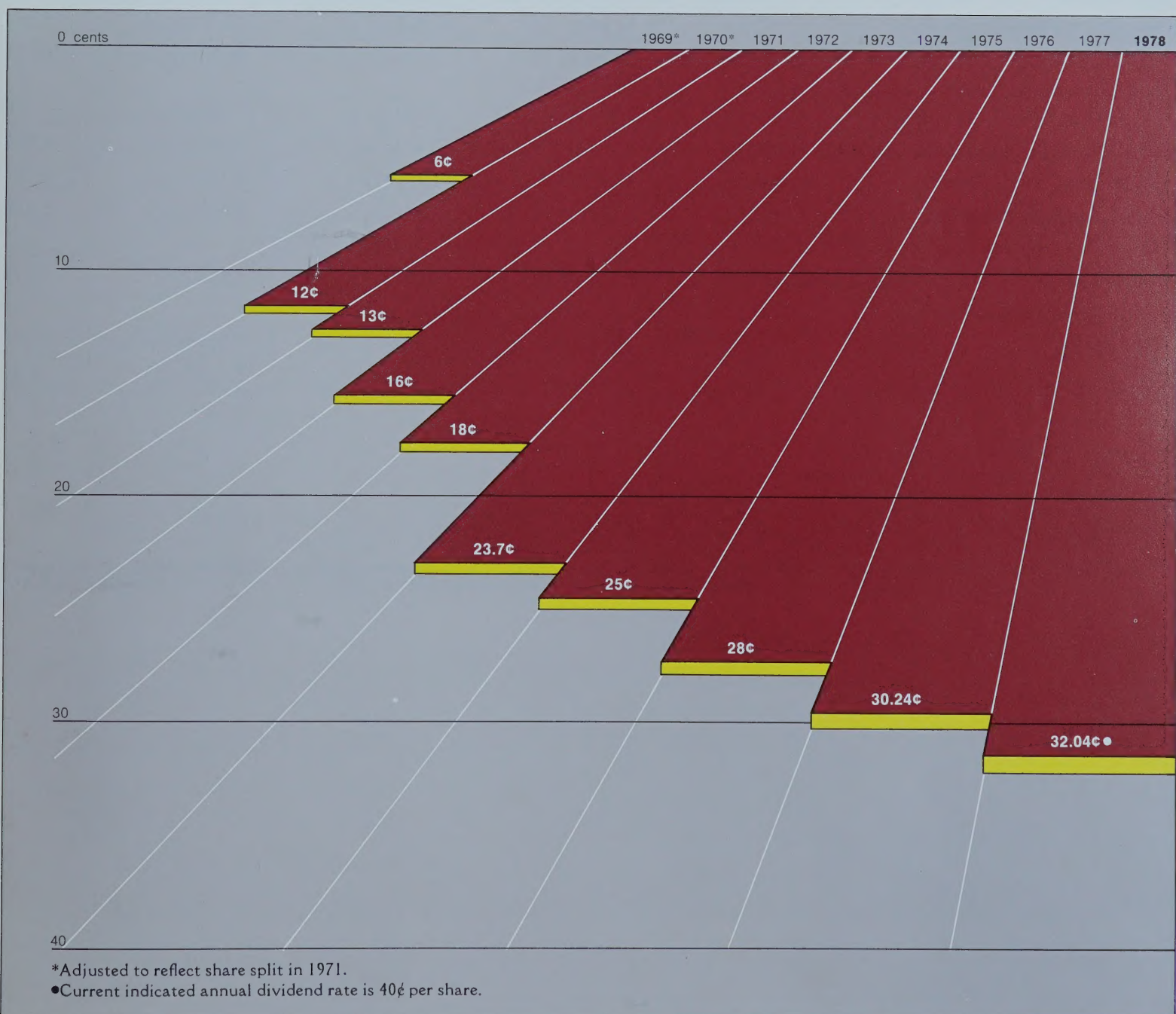
A decade ago, in 1968, the three founding Canadian insurance brokerage organizations merged to form Reed Shaw Osler Limited, which simultaneously made a public offering of its shares. Canada's rail system has, for over a century, provided a unity for the country and the newly merged companies were likewise linked together to provide cohesive professional skills at strategic locations across the vast country.

The current corporate structure took its international form in 1973 when Reed Shaw Osler Limited merged with A. R. Stenhouse & Partners Ltd. (subsequently re-named A. R. Stenhouse Reed Shaw & Partners Ltd.). With that merger, the company expanded operations outside of Canada into the United Kingdom, the European Economic Community, the South Pacific, South East Asia and Africa. The cover of the company's annual report that year illustrated its newly established international prominence and is reproduced at this time.

Net Earnings Per Share



Dividends Per Share



Ten Year Summary of Operating Results

(in thousands)

	1969†	1970†	1971†	1972†
Commissions & fees – net	\$ 12,328	\$ 15,432	\$ 17,905	\$ 22,029
Operating expenses	9,634	12,408	14,352	17,808
	<u>2,694</u>	<u>3,024</u>	<u>3,553</u>	<u>4,221</u>
Interest, dividends and rental income – net of interest on long-term debt	241	452	668	579
Earnings before income taxes and other items	2,935	3,476	4,221	4,800
Income taxes	1,557	1,795	2,158	2,322
Earnings before other items	1,378	1,681	2,063	2,478
Minority interest net of equity in affiliates				
Earnings before reduction of intangible assets	1,378	1,681	2,063	2,478
Reduction of intangible assets				
Net earnings	<u>\$ 1,378</u>	<u>\$ 1,681</u>	<u>\$ 2,063</u>	<u>\$ 2,478</u>
Net earnings per Class “A” share	<u>24.1¢</u>	<u>27.2¢</u>	<u>32.6¢</u>	<u>38.0¢</u>

†The figures for 1969 to 1972 inclusive are the actual historic earnings of the company prior to its merger with A. R. Stenhouse Reed Shaw & Partners Limited and these figures have not been restated to reflect the merger. Earnings per share for 1969 and 1970 have been restated to reflect a share split in 1971.

REED STENHOUSE
COMPANIES LIMITED

1973†	1974	1975	1976	1977	1978
\$ 56,742	\$ 75,166	\$ 92,768	\$105,313	\$127,599	\$152,955
44,664	61,639	75,136	85,324	104,462	127,305
12,078	13,527	17,632	19,989	23,137	25,650
2,708	4,134	2,154	3,953	5,629	7,129
14,786	17,661	19,786	23,942	28,766	32,779
7,047	8,814	9,472	11,694	13,970	16,332
7,739	8,847	10,314	12,248	14,796	16,447
49	102	107	39	200	31
7,690	8,745	10,207	12,209	14,596	16,416
	37	303	369	396	387
\$ 7,690	\$ 8,708	\$ 9,904	\$ 11,840	\$ 14,200	\$ 16,029
52.2¢	58.6¢	66.6¢	79.7¢	95.4¢	\$ 1.07

†From 1973 the figures include the consolidated earnings of A. R. Stenhouse Reed Shaw & Partners Limited which merged with the company effective October 1, 1972.

Report to Shareholders

The close of the 1978 fiscal year marked the 10th anniversary of Reed Stenhouse Companies Limited as a public company. We are pleased that we have been able to report a decade of continuous growth in revenues, earnings per share and dividends.

Your company's net earnings for the 12 months' period ended September 30, 1978, rose by 12.9 per cent to \$16 million or \$1.07 per share, from \$14.2 million or 95.4 cents per share in 1977. Revenue in the period grew by 19.9 per cent over the previous year to \$153 million.

In our 10th consecutive year of increased dividend payments, your directors recently raised the annual dividend to 40 cents per share, an increase of 25 per cent over the previous year.

At the time we became a public company, the predecessors in the group had over a century of established operations with a record of successful expansion. In 1968, we consolidated our position as Canada's largest broker and enjoyed substantial growth in domestic business. During the past decade, the amount of premium volume which we process has grown from \$70 million to some \$1.3 billion in 1978. Today, Reed Stenhouse Companies has expanded to 153 offices in 29 countries with over 5,100 employees as one of the leading international insurance and reinsurance brokers and risk managers in the world.

Currently, our most significant expansion is taking place in the United States. To provide a complete service to our North American and worldwide clientele, your company has been

reinvesting its U.S. earnings into widening our network of offices throughout that country. The substantial investment required to achieve this greater U.S. penetration is already benefiting our overall operations and we expect it will begin making an important contribution to earnings early in the 1980's.

"In 1968, we consolidated our position as Canada's largest broker...During the past decade, the amount of premium volume which we process has grown from \$70 million to some \$1.3 billion in 1978."

Although we have been in the United States for only a short time, your company is now among the top ten brokers in the country. Expansion in the U.S. is logical, for it represents an extremely large insurance brokerage market and possesses a stable economy and sound political process. In addition, a major presence there contributes to the development of international business.

Your company is well established to service the growing international insurance needs of corporations. In terms of our competitive position in the world insurance market, we have substantial indigenous operations, a position we achieved a number of years ago largely through our merger with A. R. Stenhouse Reed Shaw & Partners Ltd. We are thus in an excellent position as approximately one-half of worldwide insurance volume is currently developed outside North America. Because of changes in legislation, accounting principles and other similar factors, it would be much more difficult today to duplicate those merger arrangements. Recent attempts at international mergers in our industry provide an indication of your company's unique position geographically. Reed Stenhouse already has an increasingly important presence in most insurance markets and is thereby in a singular and highly favourable position.

While we expect to participate in the operations of the proposed New York Insurance Exchange, we anticipate that London will certainly remain the hub of the insurance world. Our wholly-owned London market facilities are a key and dynamic aspect of our business, not only in direct brokerage and the fast growing reinsurance brokerage fields, but also in our underwriting agency operation which now manages six Lloyd's syndicates.

In accordance with the cyclical nature of the industry, recent underwriting profits have led to premium rate reductions in many countries, which affect your company and others. This historically suggests lower rates of growth and is aggravated by the forecast of slower expansion in the world's main economies. While we cannot expect to be immune to these

influences, we believe our competitive position is sound and that the company is well situated to continue growth into the next decade.

The fact that we are international mitigates against deterioration of individual markets from period to period and protects us from adverse fluctuations in the various currencies in which our business is conducted. In the broader sense, the fact that we are involved in many countries is to our advantage, as the effect on our earnings of any softness in a specific currency is generally offset by strengths elsewhere.

"We believe our competitive position is sound and that the company is well situated to continue growth into the next decade."

After a decade as your Chief Executive Officer I have given considerable thought to the question of the continuity of management for the future. Accordingly, I have proposed

to the Board of Directors, and I am pleased to say they concur, that following our Annual and Special General Meeting it is their intention to elect Mr. William M. Wilson as my successor as President and Chief Executive Officer. Mr. Wilson has many years of experience as a senior officer in our operations. To devote full time to these new duties, Mr. Wilson will resign from his overseas executive appointments and take up residence in Toronto. It is my intention to continue as Chairman of the Executive Committee of the Board of Directors and in that position I look forward with enthusiasm to supporting the ongoing progress of your company.

It is with regret that we note, in accordance with the by-laws of the company, Mr. John G. Stenhouse will be retiring this year as a director. We acknowledge his valued contribution to the Board during his years of service.

The directors take pleasure in presenting Mr. John B. Devine, Executive Chairman of our U.K.-based operating company, Stenhouse Reed Shaw Ltd., for election to the Board.

In our worldwide operations the success of the company is dependent on our ability to communicate among continents, offices and each other. This is being accomplished, as is manifestly evident by the results that our dedicated staff have produced. The directors invite you to join me in extending our appreciation to all of them.



A handwritten signature in dark ink, appearing to read "J. G. Stenhouse". The signature is fluid and cursive.

President and Chief Executive Officer

Reed Stenhouse Companies has a broad base of international activities. Of the company's subsidiaries, Reed Shaw Stenhouse & Partners Limited, based in Canada, is responsible for business in the Western Hemisphere. Elsewhere around the globe, operations are directed by A.R. Stenhouse Reed Shaw & Partners Ltd. of Glasgow, Scotland.

During the past year, varied trading conditions have been encountered in the company's operations around the world. The following is a brief report on our activities in the major countries and areas where we have direct representation.



CANADA

In Canada, we have a mature and stable organization. As a result, despite the uncertain economy and substantial insurance rate reductions experienced during the past year, along with inflation which affected our operating expenses, we have recorded premium and profit growth albeit at lower levels than in prior years. Our limited success was largely attributable to new business, particularly in the western provinces where industrial development is increasing.

Dramatic rate reductions apply to most coverages in all areas of the country and are expected to continue for the immediate future.

The amphibious water bomber protects precious forest resources internationally, patrols shorelines around the world and is equipped for search and rescue operations. Reed Shaw Stenhouse provides insurance services in the manufacturing stages of this aircraft.



While we are always primarily concerned with our clients' insurance needs, under current conditions we are experiencing a climate which requires a most time-consuming and expensive effort, as our personnel at all levels are repeatedly involved in ensuring that our clients' insurances are maintained at the most competitive cost.

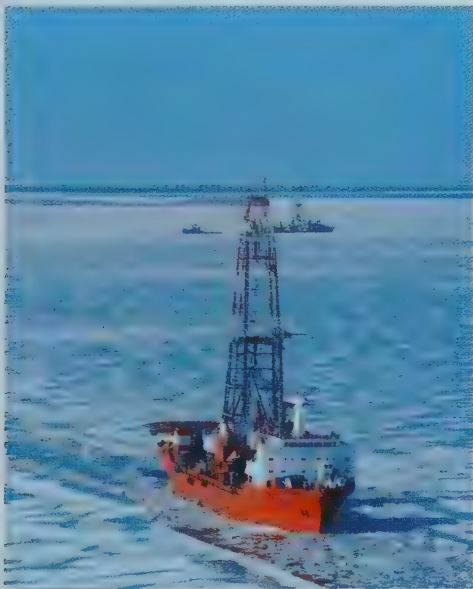
In Quebec during this past year, the Provincial Government took over an important aspect of automobile insurance. This development, along with local issues, has further affected our results. We are confident, however, that we shall progress in this province and, in order to do so, we are ensuring that we take full advantage of the combined capabilities of our diverse companies in that area.

During 1978, we completed a thorough review of Charles A. Kench and Associates, our Employee Benefits and Actuarial Consulting Division. Improved results have been recorded during the year and we look to the combined efforts of our broking and benefits divisions to prove beneficial to overall earnings.

During the year, we opened offices in Fort McMurray and Grande Prairie, Alberta; Fort St. John, British Columbia and Whitehorse, Yukon, to accommodate our clients' requirements in this area and to develop new business from the proposed pipeline. In addition, an office has been opened in Thunder Bay, Ontario and we are enthusiastic about the prospects in this area. We also anticipate future development in the Maritime provinces where we currently have a solid base established in Halifax, Nova Scotia.

We believe through our newly opened offices and our aggressive sales program, growth will continue during the coming

year. We are most optimistic about the expansion prospects of our industrial, commercial and mercantile business and the success of our mass merchandizing activities throughout the country. Although our growth will be affected by the insurance market conditions that prevail, we are confident that our sales program combined with our administrative disciplines and cost control will contribute substantial, positive results to our worldwide earnings for 1979.



An offshore drilling vessel, operated by one of the company's major petroleum industry clients, conducts exploration activities in the Beaufort Sea in the Canadian Arctic. Reed Shaw Stenhouse serves Canadian and other growing energy industries by arranging a variety of insurance coverages and loss prevention programs.

Coal is an important fossil fuel for American industry. A Reed Shaw Stenhouse client operates a 5,860 acre strip mine in Pennsylvania. The huge shovel is unearthing coal to be hauled to an on-site cleaning plant for processing, which provides both high quality coal and protection of the neighbouring environment.



UNITED STATES OF AMERICA

We are pleased to report that the United States company had a successful year in 1978. Revenues and operating profit margins have improved materially, reflecting a satisfactory penetration of this important market. All offices have reported higher revenues with new business over the planned levels.

Three mergers were completed during the year. The companies acquired are well known in their communities and we have thus improved our position in New York City, Denver, Colorado and Palo Alto, California. To accommodate important development in Alaska, we have established an office in Anchorage. We now have a total of 21 offices throughout the United States. Our growth pattern is steady and certain. The extension of our geographic spread into additional major cities continues as our goal and, during the coming year, we will continue acquisition activity.



During the past year, the expansion of our capabilities in Employee Benefits has been given much attention. There has been a significant increase in the volume of this class of business – the direct result of the addition of competent benefits personnel in a number of our offices. We anticipate continued growth in this important area of our activities.

Progress has also been achieved in the development of international business. Reed Stenhouse Companies, with its network of offices throughout the world, is in an excellent position to offer fast, responsible services to U.S.-based multi-national corporations. During the past year, we have used these facilities to advantage domestically and overseas. We foresee greater activity in this area to the benefit of the company on a worldwide basis.

A number of important organization changes were implemented in the past fiscal year to enable your company to address itself more efficiently to the needs of our growing network of offices. The Executive and Administrative offices have now consolidated in the important business centre of New York City. The transition was completed expeditiously with minimum disruption. Four regional headquarters were established in Chicago, St. Louis, Houston and San Francisco as centres for co-ordination of operations. This regionalization is expected to improve service to our customers and provide growth and greater productivity.

In 1979 we will mark our fifth anniversary since our entry into the United States. In that short period of time, your company has achieved a national stature ranking in size among the ten leading insurance brokerage firms in terms of domestic business.

REED RISK MANAGEMENT INC.

In its formative years, our risk management division directed its activities essentially to retention-level studies, captive insurance company ownership, self insurance feasibility studies and the design of cash flow insurance programs. During the past year, additional facilities have been developed which include computer-assisted services for risk administration and unique insurance plans which are a hybrid of banking and insurance. Each of these programs is specifically designed and structured to fit the needs and objectives of the client.

Reed Risk Management has concluded a number of major case studies. While these projects have been completed principally in North America, our personnel have been involved in assignments on other continents. The group is now composed of individuals with extensive backgrounds in risk management, finance, insurance broking, statistical analysis and computer sciences. To meet a growing demand, we have continued to enlarge capabilities by the addition of highly skilled specialists and, because of the nature of the work, we have mobilized the group's technical personnel with an advanced electronic communications system.

Currently, we are planning to establish additional technical centres in North America during the coming year and, as required, equivalent facilities will also be strategically placed in other areas of the world network of offices. With this expansion, Reed Risk will enhance its position as one of the leading risk management firms in the world.

INSURANCE MANAGERS LIMITED

Subsidiary insurance companies are an increasingly important risk management and insurance vehicle for certain major clients. Many industry-wide problems often lend themselves to the use of wholly or jointly owned insurance companies. Insurance Managers Limited provides insurance company management services to our clients. The company, based in Bermuda, is entering its ninth year of operations, and internationally is in the forefront of this rapidly expanding area of business. A qualified staff of insurance and management professionals works in conjunction with our risk management division and various companies within the group.

Bermuda is an important location for subsidiary insurance company operations as it is becoming a major centre for international insurance and reinsurance. Most of the large insurance underwriting and broking companies are established there and our facilities are being expanded to participate in this development and to solidify our leading position.

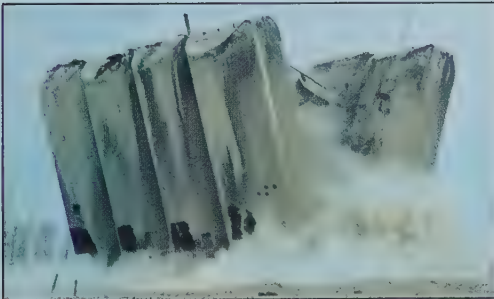
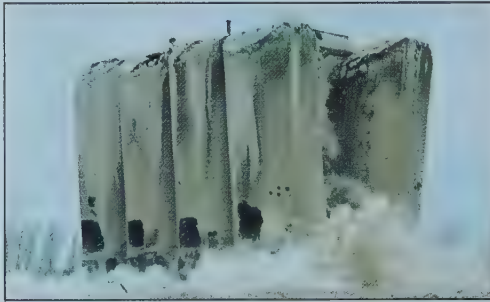


THE UNITED KINGDOM AND REPUBLIC OF IRELAND

Every company in the group in the United Kingdom made good progress during the year resulting in substantially increased trading profits. The impetus created by a successful program of development of new accounts continued throughout the year and record new volume levels were achieved by every company. Service and support of existing business have been effectively maintained despite fierce competition and difficult insurance market conditions.

The investment in technical services has been increased and we are confident that this, together with our extensive network of branch offices, will enable us to continue increasing our share of the market. It is evident that a growing number of multi-nationals appreciate our capability to provide in-house service in so many countries. In order to handle inquiries, it has been necessary to increase our team of "International Co-ordinators" and it is encouraging to report a very high success rate in business development from this source.

We also benefit significantly from our very successful London market companies with their innovative marketing techniques which assist greatly in our efforts to retain and develop business. While their results were affected by market conditions in Australia and South Africa along with the substantial reduction in marine rates, growth in other areas minimized the effects of these conditions.



Industrial dismantling and demolition, often hazardous in nature, is one of the many specialties of a large industrial holding company based in Sheffield, England. Stenhouse Reed Shaw has provided comprehensive coverage for this century-old firm for the last 50 years.

Anticipated profit growth was exceeded by our Life and Pensions company against a background dominated by pensions legislation. Major development of pension plans for senior executives, together with record other new pension business, was the basis for the profit achieved. Life Insurance continues to be a contracting market for brokers. We believe there will be further major changes in the pension market and our operations have the special expertise and services required for future developments.

During the past year, refurbishment of our London building was completed and all the City of London brokerage operations have been consolidated in these premises, eliminating previous duplication of office costs.

STEN-RE LTD.

Our Reinsurance and Underwriting Management arm again produced substantially improved results. The increased profit from underwriting management was fairly small due mainly to the current depressed climate of the marine market, but reinsurance broking continued to show a material growth pattern in both income and profit. Operations in Greece, Mexico and Australia have not, as yet, achieved their anticipated profit potential. In the course of the past year a joint venture company was established in Madrid, Spain.

Of important significance to the group's international reinsurance activity was the acquisition by the Canadian company of a 50% interest in Toronto-based, Universal Reinsurance Intermediaries Limited in August, 1978. Terms of the purchase agreement provide for the acquisition of the balance of the shareholding over a period. The results of this acquisition are expected to make a meaningful contribution in the 1979 financial year.

LLOYD'S UNDERWRITING AGENCIES

The company has had a very successful year. Four of our directly managed Syndicates produced outstanding results for the 1975 Underwriting Account, while our Livestock Syndicate suffered a small loss.

The demand for Membership of Lloyd's continues to remain high and we are finding it necessary to handle our position with care and responsibility in view of the limited premium potential available. Even so, we are processing a large number of Names spread throughout the world who will begin underwriting participation on January 1, 1979.



At the beginning of 1978 we commenced our own general Non-Marine Syndicate whereby we now directly manage six Syndicates at Lloyd's, namely Marine, General Non-Marine, Motor, Employers' Liability, Public Liability and Livestock.

All the syndicates that Reed Stenhouse Companies directly manage have a 'box' in the Room at Lloyd's – the hub of the world insurance market. The syndicate underwriting agency operations comprise an important and growing part of the company's activities.



BELGIUM

Revenues advanced during the last year but were offset by rising costs and, as a result, profits remained at the same level as the previous year. In other developments, computer techniques were improved and the Brussels office moved to new and better premises. Planning is now complete for a move of the Antwerp and Lokeren offices. It is anticipated that these improved conditions will be reflected in increased profitability next year.

FRANCE

The year under review has been one of major reorganization and the two main broking companies were merged under the name of Société Générale de Courtage d'Assurances S.A. (S.G.C.A.) with a now enlarged holding by Reed Stenhouse Companies in this Paris-based, publicly-quoted company.

As part of the reorganization, the reinsurance interests of the merged companies were sold to Sten-Re Ltd. and now form part of our worldwide reinsurance activities.

These changes have enabled us to achieve a rationalization of the internal administration, an improved service to clients and a more aggressive approach to the development of new business, all of which will consolidate the important position of S.G.C.A. in the French market.

Despite a weakening market in France, as a result of the energies expended in reorganization the company has achieved an increase in revenues, is well placed to take advantage of any future upturn in market conditions and should increase its profitability in the forthcoming year.

An important client of Stenhouse Reed Shaw has its principal paper manufacturing plant on the canal at Ghent, Belgium. An aerial photograph shows the plant site which covers an extensive area and represents one of the most modern installations of its kind in the E.E.C. countries.



SOUTH AFRICA

In the year under review the group acquired the insurance broking operations of Premier Insurance Consultants in Pretoria on January 1, 1978 and B. Thompson and Company, Johannesburg, on March 1, 1978. Both will provide increased profitability and representation.

Agreement was completed with the Hogg Robinson Group to merge their South African broking interests with Stenhouse Reed Shaw, effective March 1, 1978. The company now trades as Stenhouse Hogg Robinson (Pty) Ltd. in which a 60% equity interest is held by Stenhouse Reed Shaw.

A downturn in the economy, combined with strong competition, resulted in reduced profit for the year. However, the merger, with the other acquisitions, places the group in an advantageous position to obtain a larger market share.

The Reed Stenhouse group creates and implements a wide range of insurance programs for clients in many industries worldwide. Here in Botswana, a Director along with a client inspect the insured's timber vats used for processing hides.





AUSTRALIA AND PAPUA NEW GUINEA

A combination of a static Australian economy, intense broker and insurer competition and large underwriting capacity produced a further substantial softening of insurance rates over the previous low levels reported at the end of the prior year. While the program for the development of new business produced record results, these gains were almost totally offset by premium and resulting income reductions on existing business. Continuation of the market downturn has demanded even greater control over expenses which were kept in line with inflation – even allowing for the necessity to expand the marketing and risk management divisions.

During the coming year all Australian locations will be connected to the Sydney-based computer which should result in savings in expense and greater management control.



In the foreground of towering Mt. Egmont in New Zealand, a Stenhouse Reed Shaw client's natural gas plant produces the heat for many of that country's businesses and residences. The company has developed a recognized expertise internationally and is increasingly involved in the placement of insurance for natural gas facilities around the world.

NEW ZEALAND AND FIJI

Satisfactory premium volume increase was recorded over 1977, although a slowdown in growth was experienced when compared with the two previous years. The program of new business development continued but was offset by insurance rates, which softened significantly here as well, during the latter part of the year. Competition for business and generally unfavourable economic conditions prevailed and had



An Australian fisherman setting lobster pots. The export of lobsters is one of Western Australia's major industries. Stenhouse Reed Shaw is involved in all aspects of insurance for the Australian fishing industry, which includes providing expert advice on hull, liability and product coverage.

a major impact on the results. During the coming year, all branches in New Zealand will also be connected to the Australian computer network.

In its first year of operation, Stenhouse Sullivan (Pacific Islands) Ltd. in Fiji achieved satisfactory results. A good base has been established with the company's name and activities becoming well known in the business community. Profits are projected, now that formation costs have been absorbed.



SOUTH EAST ASIA

Our operations in South East Asia cover Thailand, Malaysia, Brunei, Hong Kong, Singapore and the Philippines.

Results in the past financial year improved over the previous year. Management changes were completed and we are confident that the company is on a firm basis for improved growth and profitability.

The area is regarded as one of growth potential in broking, reinsurance and underwriting activities. The economic and political outlook in the region gives indications of stability and sustained growth in the foreseeable future. We believe that we are well placed geographically and well organized to benefit from the current economic situation.



The cooperation of clients who provided photographs for use in this annual report is gratefully acknowledged.

This is a casino and hotel complex on a mountain top, 5,700 feet above sea level, 35 miles north of Kuala Lumpur. Stenhouse Reed Shaw arranged a comprehensive program of insurance coverage during construction.

Directors

The Honourable John B. Aird, O.C.,
Q.C., LL.D.
Chairman of the Board

Arthur G. Bacon

Eric G. Bale, C.A.
Secretary-Treasurer

John S. Davidson

Angus Grossart, M.A., LL.B., C.A.

Herbert Houghton
Managing Director and Chief
Executive Officer, A. R. Stenhouse
Reed Shaw & Partners Ltd.

Arthur W. John, C.B.E., F.C.A.

Jack M. Moon
Executive Vice President

The Honourable John P. Robarts, P.C.,
C.C., Q.C., LL.D.
Chairman of the Board, Reed Shaw
Stenhouse Limited

John G. Stenhouse, T.D.

Raymond C. Strange, A.C.I.I.
Chairman, A. R. Stenhouse Reed
Shaw & Partners Ltd.

James W. Whittall
President and Chief Executive Officer

William M. Wilson, C.A.
Vice President (Finance) and
Chief Financial Officer

EXECUTIVE COMMITTEE

James W. Whittall/Chairman

Eric G. Bale

Herbert Houghton

Jack M. Moon

Raymond C. Strange

William M. Wilson

AUDIT COMMITTEE

The Honourable John P. Robarts/Chairman

The Honourable John B. Aird

John S. Davidson

Angus Grossart

Arthur W. John

TRANSFER AGENTS AND REGISTRARS

The Canada Trust Company in Toronto

Canada Permanent Trust Company
in other major Canadian cities

STOCK LISTINGS

The Company's Class A common shares
trade under the ticker symbol RSS "A"
on the following Canadian Stock
Exchanges:

The Toronto Stock Exchange

The Montreal Stock Exchange

The Vancouver Stock Exchange

The Board of Directors of Reed Stenhouse Companies Limited at a meeting in 1978. Pictured left to right are: Arthur G. Bacon, Raymond C. Strange, John G. Stenhouse, Arthur W. John, Jack M. Moon, John S. Davidson, The Honourable John P. Robarts, Eric G. Bale, The Honourable John B. Aird, James W. Whittall, William M. Wilson, Angus Grossart, Herbert Houghton.



Principal Subsidiaries and Affiliates

(as at December 31, 1978)

AUSTRALIA

Stenhouse Reed Shaw Ltd.

BELGIUM

Stenhouse Reed Shaw N.V. S.A.

BERMUDA

Insurance Managers Limited

CANADA

Reed Shaw Stenhouse & Partners Limited
Reed Shaw Stenhouse Limited
Ducketts Limited
Roy, Arsenault & Associés Inc.
J. Meloche Inc.
Monnex Insurance Agencies Limited
Reed Risk Management International Limited
Charles A. Kench and Associates Limited
Employee Facts Limited
Universal Reinsurance Intermediaries Limited

FIJI

Stenhouse Sullivan (Pacific Islands) Ltd.

FRANCE

Stenhouse France S.A.
Société Générale de Courtage d'Assurances S.A.

HONG KONG

Stenhouse South China Ltd.

MALAYSIA

Stenhouse Leow Pte. Ltd.

NEW GUINEA

Stenhouse (P.N.G.) Pty. Ltd.

NEW ZEALAND

Stenhouse Reed Shaw Ltd.

PHILIPPINES

Stenhouse Technical Insurance Services Inc.

REPUBLIC OF IRELAND

Stenhouse Reed Shaw Ireland Ltd.

RHODESIA

Stenhouse Hogg Robinson Rhodesia (Pvt) Ltd.

SINGAPORE

Stenhouse Leow Pte. Ltd.

SOUTH AFRICA

Stenhouse Hogg Robinson (Pty) Ltd.

SWEDEN

J. Akerman A.B.

SWITZERLAND

Stenhouse Reed Shaw International S.A.

THAILAND

Stenhouse Jenkid Co. Ltd.

UNITED ARAB EMIRATES

Stenhouse Reed Shaw

UNITED KINGDOM

A. R. Stenhouse Reed Shaw & Partners Ltd.
Stenhouse Reed Shaw Ltd.
Stenhouse Reed Shaw Marketing Ltd.
Sir William Garthwaite (Insurance) Ltd.
Wright Deen & Co. Ltd.
Sten-Re Ltd.
Sir William Garthwaite (Re-Insurance) Ltd.
Stenhouse Reed Shaw Underwriting Agencies Ltd.
Stenhouse Reed Shaw Life & Pensions Ltd.
Stenhouse Reed Shaw Pension Services Ltd.
Stenhouse Reed Shaw Management Services Ltd.

UNITED STATES OF AMERICA

Reed Shaw Stenhouse Inc.
Great Eastern Associates Inc.
Reed Risk Management Inc.
Reed Shaw Stenhouse International Inc.

Consolidated Financial Statements Auditors' Report

To the Shareholders of
Reed Stenhouse Companies Limited
(formerly Reed Shaw Osler Limited):

We have examined the consolidated balance sheet of Reed Stenhouse Companies Limited as at September 30, 1978 and the consolidated statements of earnings, retained earnings, capital in excess of par value and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants
McLintock Main Lafrentz & Co.
Chartered Accountants

Toronto, Canada
December 4, 1978

Une version française du présent rapport est disponible sur demande à l'adresse suivante:

Le Secrétaire
Les Compagnies Reed Stenhouse,
Limitée
Boîte postale 250
Toronto Dominion Centre
Toronto Canada M5K 1J6

(formerly Reed Shaw Osler Limited – note 1)
(Incorporated under the
Canada Corporations Act)

Consolidated Balance Sheet

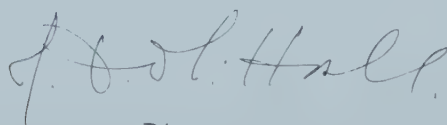
September 30, 1978

(with comparative figures as at September 30, 1977)

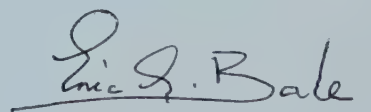
(in thousands)

ASSETS	1978	1977
CURRENT:		
Cash and bank deposit receipts	\$102,453	\$ 64,680
Marketable securities	256	285
Short-term deposits and loans	6,318	7,659
Accounts receivable	254,445	217,169
Prepaid expenses and other current assets	6,519	5,594
	<u>369,991</u>	<u>295,387</u>
INVESTMENTS:		
Affiliated companies	6,980	1,507
Securities on deposit and other quoted investments	655	601
Mortgages, loans and other investments (note 6)	3,644	3,076
	<u>11,279</u>	<u>5,184</u>
FIXED ASSETS:		
Land, buildings and building improvements (note 4)	23,496	23,044
Office furniture, equipment and vehicles	18,844	11,641
Leasehold improvements	4,715	3,497
Total, at cost	<u>47,055</u>	<u>38,182</u>
Less accumulated depreciation and amortization	<u>10,447</u>	<u>7,440</u>
	<u>36,608</u>	<u>30,742</u>
INTANGIBLE ASSETS:		
Goodwill	55,052	54,976
Non-compete covenants	656	824
	<u>55,708</u>	<u>55,800</u>
	<u>\$473,586</u>	<u>\$387,113</u>

On behalf of the Board:



Director



Director

(See accompanying notes to consolidated financial statements)

	(in thousands)	
LIABILITIES	1978	1977
CURRENT:		
Bank overdrafts	\$ 13,680	\$ 5,513
Accounts payable	305,971	247,737
Sundry payables and accrued charges	21,683	18,296
Income taxes payable	8,826	7,778
Term bank loans and notes payable, current portion	3,156	2,120
Deferred income taxes, current portion	10,996	9,732
Deferred commissions, current portion	786	760
	<u>365,098</u>	<u>291,936</u>
LONG-TERM:		
Term bank loans and notes payable (note 5)	17,640	17,415
Income taxes due beyond one year	3,149	2,941
Deferred income taxes	1,537	391
Deferred commissions	82	142
Other liabilities	799	256
	<u>23,207</u>	<u>21,145</u>
Deferred credit, foreign currency translation	7	1,481
Minority interest	<u>2,546</u>	<u>1,393</u>
SHAREHOLDERS' EQUITY (note 6)		
Share capital	14,983	14,925
Preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited	35	35
Capital in excess of par value	14,062	13,760
Retained earnings	53,648	42,438
	<u>82,728</u>	<u>71,158</u>
	<u>\$473,586</u>	<u>\$387,113</u>

Consolidated Statement of Earnings

For the year ended September 30, 1978
(with comparative figures for 1977)

(in thousands)

	1978	1977
Commissions and fees earned, net	\$152,955	\$127,599
Operating expenses:		
General	124,585	102,500
Depreciation and amortization of fixed assets	2,720	1,962
	127,305	104,462
	25,650	23,137
Interest, dividend and rental income, net:		
Interest, dividend and rental income (note 4)	8,926	7,695
Interest on long-term debt	1,797	2,066
	7,129	5,629
Earnings before income taxes and other items	32,779	28,766
Income taxes:		
Current	14,237	12,512
Deferred	2,095	1,458
	16,332	13,970
Earnings before other items	16,447	14,796
Add (deduct) other items:		
Equity in earnings (loss) of affiliated companies	251	(90)
Minority interest	(282)	(110)
	(31)	(200)
Earnings before reduction of intangible assets	16,416	14,596
Reduction of intangible assets net of income taxes (1978 - nil; 1977 - \$84,000)	(387)	(396)
Net earnings for the year (note 7)	\$ 16,029	\$ 14,200

(See accompanying notes to consolidated financial statements)

Consolidated Statements of Retained Earnings and Capital In Excess of Par Value

For the year ended September 30, 1978
(with comparative figures for 1977)

(in thousands)

	1978	1977
RETAINED EARNINGS		
Balance, beginning of year	\$ 42,438	\$ 32,748
Add net earnings for the year	16,029	14,200
	58,467	46,948
Deduct dividends paid (note 7)	4,819	4,510
Balance, end of year	<u>\$ 53,648</u>	<u>\$ 42,438</u>
CAPITAL IN EXCESS OF PAR VALUE		
Balance, beginning of year	\$ 13,760	\$ 13,334
Add capital in excess of par value on shares issued during the year (note 6)	302	426
Balance, end of year	<u>\$ 14,062</u>	<u>\$ 13,760</u>

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Changes in Financial Position

For the year ended September 30, 1978
(with comparative figures for 1977)

(in thousands)

	1978	1977
Source of funds:		
Operations –		
Net earnings for the year	\$ 16,029	\$ 14,200
Add items not involving working capital:		
Depreciation and amortization of fixed assets	2,720	1,962
Other	1,504	1,012
Working capital provided from operations	20,253	17,174
Increase in income taxes due beyond one year and other long-term liabilities	707	683
Increase in minority interest in businesses acquired previously	369	57
Issue of Class "A" shares	360	489
	<u>21,689</u>	<u>18,403</u>
Application of funds:		
Non-current assets and liabilities relating to insurance businesses acquired		
Goodwill	2,371	3,272
Non-compete covenant		272
Fixed and other assets	724	219
	<u>3,095</u>	<u>3,763</u>
Less:		
Minority interests in businesses acquired	502	
Notes payable and other liabilities, long-term portion	736	504
	<u>1,238</u>	<u>504</u>
Net non-current assets acquired	1,857	3,259
Increase in affiliated companies	2,143	241
Increase in fixed and other assets	8,484	6,212
Price escalation adjustments for goodwill in connection with businesses acquired previously	1,003	88
Decrease in term bank loans and notes payable	467	1,819
Decrease in deferred credit on foreign currency translation	1,474	2,462
Dividends paid	4,819	4,510
	<u>20,247</u>	<u>18,591</u>
Net increase (decrease) in working capital for year	1,442	(188)
Working capital, beginning of year	3,451	3,639
Working capital, end of year	<u>\$ 4,893</u>	<u>\$ 3,451</u>
Represented by:		
Current assets	\$369,991	\$295,387
Less current liabilities	365,098	291,936
Working capital, end of year	<u>\$ 4,893</u>	<u>\$ 3,451</u>

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

September 30, 1978

1. CHANGE OF NAME

The company obtained supplementary letters patent dated February 10, 1978 changing its name from Reed Shaw Osler Limited to Reed Stenhouse Companies Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation:

The accompanying consolidated financial statements consolidate the accounts of Reed Stenhouse Companies Limited and all its subsidiary companies. The merger of Reed Stenhouse Companies Limited and A. R. Stenhouse Reed Shaw & Partners Limited, effective October 1, 1972, is accounted for using the "pooling of interests" accounting method. Acquisitions of businesses are accounted for using the purchase method of accounting.

(b) Revenue recognition:

Commission revenue is generally recognized on the effective date of the policies. Where the policy and premium term exceed one year, a portion of the revenue is deferred to subsequent applicable years. Fees for actuarial and other consulting services are recognized when the services are rendered. (General expenses include the costs of servicing customers, which costs are expensed as incurred.)

(c) Foreign currency translation:

Non-current assets and liabilities of the company which are stated in a foreign currency and financial statements of subsidiary companies outside of Canada are translated into Canadian dollars as follows:

- (i) At rates of exchange prevailing at the balance sheet date
 - assets, other than Two South Place (formerly Dominion Buildings, note 4) and related accumulated depreciation, goodwill and non-compete covenants
 - liabilities

- (ii) At rates of exchange prevailing at dates of acquisition
 - Two South Place (note 4) and related accumulated depreciation
 - goodwill and non-compete covenants and related charges against earnings
 - preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited

- (iii) At average rates of exchange prevailing during the year
 - revenues
 - expenses (except for those in (ii) above)
 - dividends paid by subsidiary (note 7 (b))

Because of circumstances prevailing in world currency markets the net accumulated unrealized exchange translation credits are deferred. The unrealized exchange translation debit of \$1,474,000 arising on consolidation in 1978 is included in such deferral.

(d) Investments and marketable securities:

- (i) Affiliated companies:

Investments in effectively controlled affiliated companies are accounted for on the equity method. Under this method the company's share of the net earnings or loss of such companies for the year is reflected in the consolidated statement of earnings and the investments are carried at cost of shares and advances plus the company's share of undistributed earnings since acquisition.

- (ii) Other:
 - marketable securities, at cost (this value approximates quoted market value)
 - securities on deposit and other quoted investments, at cost less amounts written off (this value approximates quoted market value)
 - mortgages, loans and other investments, at cost

(e) Fixed assets:

Fixed assets are recorded at cost. Leasehold improvements are generally amortized over the terms of the related leases. Depreciation of other fixed assets, except land, is

provided over their estimated useful lives at 2½% for Two South Place and at rates varying from 10% to 33⅓% for the remainder.

(f) Other assets:

- (i) Goodwill:

Goodwill is valued at cost less amounts written off. To comply with generally accepted accounting principles, goodwill on business acquisitions subsequent to March 31, 1974 is amortized on a straight line basis over 40 years (1978 - \$189,000; 1977 - \$146,000) and goodwill arising before and after that date is reduced when it is considered that there may be a permanent decline in its value (1978 - \$30,000; 1977 - \$166,000).

- (ii) Non-compete covenants:

The non-compete covenants are recorded at cost, less amortization. Amortization (1978 - \$168,000; 1977 - \$168,000) is provided on a straight line basis over the terms of the covenants.

(g) Deferred income taxes:

For income tax purposes the Canadian companies are permitted to defer commission revenue in excess of the commission deferred in the accounts; the amount of income tax thus postponed is provided for in the liabilities as "deferred income taxes". Since the company considers the undistributed earnings of foreign subsidiaries and affiliated companies to be permanently invested outside of Canada, it does not make provision for income taxes which would become payable if such earnings were remitted to Canada.

(h) Pension plan:

The company and certain of its subsidiaries provide pension plans for employees in accordance with normal local employment conditions. All plans currently are adequately funded to the extent that existing assets are sufficient to provide for all pension benefits based on service and

earnings to date. Ultimate pension benefits under those plans are, however, determined on actuarially calculated pre-retirement earnings. Based on those calculations, certain subsidiaries have contingent obligations for unfunded past service pension benefits estimated at \$10,623,000. It is intended that these contingent past service pension obligations will be funded and charged against future earnings by payments of various amounts not exceeding \$1,000,000 annually over a period of fifteen years with minimal amounts thereafter.

- (i) Certain 1977 figures have been reclassified to conform with classifications adopted in 1978.

3. GEOGRAPHIC DISTRIBUTION

The geographic distributions of premiums, on which the company earns its commissions, and earnings before income taxes and other items are as follows (in thousands):

	Premiums	
	1978	1977
Canada and United States	\$ 593,734	\$ 529,637
United Kingdom	420,673	296,410
Australia and New Zealand	176,548	160,657
Other	91,636	79,581
	<u>\$1,282,591</u>	<u>\$1,066,285</u>
	Earnings	
	1978	1977
Canada and United States	\$ 14,832	\$ 12,830
United Kingdom	10,281	8,741
Australia and New Zealand	5,613	5,583
Other	2,053	1,612
	<u>\$ 32,779</u>	<u>\$ 28,766</u>

4. LAND, BUILDINGS AND BUILDING IMPROVEMENTS

In 1974 A. R. Stenhouse Reed Shaw & Partners Limited, a United Kingdom subsidiary of the company, acquired from Stenhouse Holdings

Limited, the company's principal shareholder, the issued shares of Dominion Buildings Limited, whose only asset is an office building known as Two South Place (formerly Dominion Buildings) and the land on which it is situated in London, England.

The building is leased to a subsidiary of Stenhouse Holdings Limited at an annual rental of £650,000 such lease being guaranteed by Stenhouse Holdings Limited. The lease expires in thirty-one years and is subject to five-year rental reviews during its term. A major portion of the building is sublet to certain operating subsidiaries of A. R. Stenhouse Reed Shaw & Partners Limited.

Under the terms of the purchase arrangements:

- (a) The company through its subsidiary A. R. Stenhouse Reed Shaw & Partners Limited has an option under which it may between October 1, 1979 and September 30, 1980 require Stenhouse Holdings Limited to repurchase the shares of Dominion Buildings Limited at a value based on the original sterling cost to A. R. Stenhouse Reed Shaw & Partners Limited of acquiring such shares plus accumulated defined costs.
- (b) If either the shares in Dominion Buildings Limited or the property known as Two South Place is sold to an outside party, Stenhouse Holdings Limited will participate indirectly in any gain on that sale through its shareholding in Reed Stenhouse Companies Limited and is entitled for a period of 37 years, if at the time of that sale its shareholding in Reed Stenhouse Companies Limited is less than 50%, to receive a cash payment to ensure that its combined direct and indirect participation in that gain is 50%.

5. TERM BANK LOANS AND NOTES PAYABLE

- (a) Details (with current interest rates at September 30, 1978 indicated) are as follows:

Term bank loans – (in thousands)
Due by instalments to December, 1979, payable in sterling (see (c) below) – interest at London Interbank Market rate on six month sterling time deposits plus $2\frac{1}{2}\%$ (currently $12\frac{3}{4}\%$) \$ 8,190

Due by instalments to January, 1987, payable in U.S. dollars (see (d) below) – interest at London Interbank Market rate on Eurodollars, for various periods, plus $1\frac{1}{2}\%$ (currently at various rates of approximately $9\frac{1}{2}\%$) 7,080

Due July, 1983, payable in U.S. dollars – interest at ninety day London Interbank Market rate on Eurodollars, plus 1% (currently 10 7/16%) 1,324

Due by instalments to March, 1984, payable in U.S. dollars (see (d) below) – interest at U.S. bank rate plus $\frac{1}{2}\%$ (currently $10\frac{1}{4}\%$) 1,109

Due by various dates to November, 1980, payable in U.S. dollars – interest at London Interbank Market rate on Eurodollars, for various periods, plus $1\frac{1}{2}\%$ (currently at various rates of approximately 9%) 1,062

Less portion due within one year 2,482
16,283

Notes payable –
Notes due by instalments to April, 1985, payable in U.S. dollars, interest at various rates not exceeding 8% 2,031
Less portion due within one year 674
1,357
\$17,640

(b) Principal due within the next five years is as follows (in thousands): 1979 - \$3,156; 1980 - \$8,051; 1981 - \$1,993; 1982 - \$2,413; 1983 - \$2,425.

(c) Secured sterling bank loan in connection with the acquisition of Dominion Buildings Limited (note 4):

Under the terms of the loan agreement, this loan, against which the shares of Dominion Buildings Limited are pledged as security, would become immediately repayable in full in the event Stenhouse Holdings Limited ceases to be the holding company of A. R. Stenhouse Reed Shaw & Partners Limited within the meaning of the United Kingdom Companies Acts.

(d) Term bank loans:

While certain term bank loans are collateralized by demand notes, the repayment terms are included in (a) and (b) above.

6. SHAREHOLDERS' EQUITY

(a) Authorized share capital: (no changes during 1978)

Class "A" shares of \$1 par value each	20,000,000
Convertible Class "B" shares of \$1 par value each	8,095,159
Convertible Class "C" shares of \$2 par value each (including 121,374 shares that were issued and subsequently converted into 242,748 Class "B" shares)	1,328,547

(b) Issued share capital:

	1978	
	Number	Amount
		(in thousands)
Class "A"	6,887,986	\$ 6,888
Class "B"	5,680,813	5,681
Class "C"	1,207,173	2,414
		<u>\$14,983</u>
	1977	
	Number	Amount
		(in thousands)
Class "A"	6,830,212	\$ 6,830
Class "B"	5,565,265	5,565
Class "C"	1,264,947	2,530
		<u>\$14,925</u>

(c) Changes during the year:

(i) Class "A" shares issued:
For cash under Incentive Stock Option Plan (note 6(g)):

Price per share	Number	Par value	Capital in excess of par value	Total consideration
			(in thousands)	
\$6.20	56,926	\$57	\$296	\$353
\$8.33	848	1	6	7
	<u>57,774</u>	<u>\$58</u>	<u>\$302</u>	<u>\$360</u>

(ii) Class "B" and Class "C" shares issued:
115,548 Class "B" shares were issued on the conversion of 57,774 Class "C" shares.

(d) Rights:

Each Class "A", Class "B" and Class "C" share is entitled to one vote. Each Class "B" share may be converted at any time into one Class "A" share. Each Class "C" share may be converted into two Class "B" shares upon the issuance from treasury of

one Class "A" share or if the company should dispose of all or a substantial part of its assets or undertaking or if a takeover bid is made to the holders of the Class "A" shares. Class "A" and Class "B" shares are entitled to the same per share dividends and the Class "C" shares are entitled to twice such per share dividend. However, dividends paid on the special preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited (see (e) below) reduce the dividends paid on the Class "B" and Class "C" shares.

(e) Preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited:

Reflected in the consolidated financial statements as part of shareholders' equity are 15,000 special preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited (note 2 (a)), held by the former shareholders of that company, with a stated capital value of £15,000 (\$35,250), which shares are non-voting and non-participating in winding up or liquidation beyond their paid-up value.

Earnings generated by the A. R. Stenhouse Reed Shaw & Partners Limited group will be available to satisfy the dividend entitlements of United Kingdom shareholders (the Class "B" and Class "C" shareholders), the intention being to have the Class "B" and Class "C" shareholders receive all or most of the dividends to which they are entitled by way of direct dividends on the special shares.

(f) Senior Executive Stock Purchase Plan:

Under the terms of the plan eligible participants are entitled to purchase Class "A" common shares from treasury at market prices existing at the date of issue using funds loaned to them by the company for this purpose. Shares purchased under this plan are held by a trustee until the related loans are repaid in full.

At September 30, 1978, loans made in a previous year amounting to \$446,800 are included in "mortgages, loans and other investments" and 40,000 Class "A" common shares remain reserved for possible issue under this plan.

(g) Incentive Stock Option Plan:

At September 30, 1978 Class "A" share options, at a price of \$6.20 per share exercisable in various periods to April 3, 1980, were outstanding to certain officers, directors and employees covering a total of 116,760 Class "A" shares; including options on 51,500 shares to officers and directors, and Class "A" share options, at a price of \$8.33 per share exercisable in various periods to December 8, 1982, were outstanding to certain employees covering a total of 164,152 Class "A" shares. A further 134,414 Class "A" shares remain reserved for possible issue under this plan at prices to be fixed by the directors.

7. NET EARNINGS PER SHARE AND DIVIDENDS

(a) Net earnings per share:

	1978	1977
	(dollars)	
Class "A"	1.07	.95
Class "B"	1.07	.95
Class "C"	2.14	1.90

The earnings per share for the year have been calculated using the weighted monthly average number of shares outstanding during the year (1978 - 14,956,808; 1977 - 14,887,446) which is the sum of the weighted monthly average number of Class "A" and Class "B" shares and twice the weighted monthly average number of Class "C" shares outstanding during the

year. The calculations are based on the net earnings as shown by the consolidated statement of earnings. No deduction is made for dividends paid on the special preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited since, as explained in note 6 (d), such dividends apply to reduce the dividend entitlements of the Class "B" and Class "C" shares.

(b) Dividends:

Dividends paid during the year can be summarized as follows:

	1978	1977
	(in thousands)	
Class "A" shareholders: Dividends on Class "A" shares paid by Reed Stenhouse Companies Limited at 32.04¢ (30.24¢ in 1977) per share	\$2,200	\$2,055

Class "B" and "C" shareholders:
Dividends on special preferred shares of A. R. Stenhouse Reed Shaw & Partners Limited equivalent to 32.04¢ (30.24¢ in 1977) per Class "B" share and 64.08¢ (60.48¢ in 1977) per Class "C" share

	2,619	2,455
	<u>\$4,819</u>	<u>\$4,510</u>

8. COMMITMENTS

Commitments under various leases for office premises call for minimum annual rentals within the next five years as follows (in thousands): 1979 - \$5,978; 1980 - \$5,399; 1981 - \$4,961; 1982 - \$4,293; 1983 - \$3,805.

9. DIRECTORS' AND OFFICERS' REMUNERATION

The aggregate remuneration of the thirteen directors and six officers, five of whom are also directors, of the company as defined in Section 122.2 of the Canada Corporations Act is as follows:

	Paid by	
	A Canadian subsidiary	A United Kingdom subsidiary
	(in thousands)	
Directors, as directors	nil	nil
Directors, as officers or employees of subsidiary companies	\$623	\$159
Officers, as officers	\$ 57	nil

10. ANTI-INFLATION PROGRAM

The Canadian operations of the company are subject to mandatory compliance with legislation under the Government of Canada's anti-inflation program and the company understands that it is in compliance with the requirements of the anti-inflation legislation.

Controls on profits, dividends and employee compensation terminate on various dates to December 31, 1978.

**Report to
Shareholders
as of March 31, 1978**



Canada • U.S.A. • Mexico • Bermuda • United Kingdom • Republic of Ireland •
France • Belgium • Greece • Spain • Sweden • Switzerland • United Arab Emirates •
Singapore/Malaysia • New Guinea • Hong Kong • Philippines • Australia •
New Zealand • Fiji • South Africa • Rhodesia

REED STENHOUSE

COMPANIES LIMITED

To Our Shareholders :

For the six months ended March 31, 1978, we are pleased to report that revenues of your company were up over 20% and net earnings increased at a rate of 16% over the same period last year.

Trading conditions during the period have been difficult in most countries where we operate. Real economic growth has been lacking. This, together with a general reduction in premium rates, has increased competition for business in most major areas. We have, therefore, increasing costs which are reflected in our profit margins. The continuing development expense of our U.S. operations is also a factor in our results.

We remain confident that our profit objectives for the current fiscal year will be attained.

Recently, we have continued our expansion of international operations with the establishment of a reinsurance brokerage office in Madrid, Spain and the opening of an office in Whitehorse, Yukon, Canada. This brings to 147 the number of offices we now maintain in 29 countries.

At a meeting of your directors held recently, our 37th consecutive dividend was declared at a rate of 8.01¢ per Class "A" share, payable on June 30, 1978, to shareholders of record on June 12, 1978.



J. W. Whittall

President and Chief Executive Officer

Toronto, Canada

May 18, 1978

CONSOLIDATED FINANCIAL INFORMATION

For the six months ended March 31

(subject to audit and year-end adjustment)

CONSOLIDATED STATEMENT OF EARNINGS

	1978	1977
	(\$,000)	
Commissions and fees earned – net	\$70,222	\$58,343
Operating expenses	59,497	48,353
Operating profit	10,725	9,990
Investment and rental income – net of interest on long-term debt	2,864	2,353
Earnings before income taxes and other items	13,589	12,343
Income taxes	6,562	6,238
Earnings before other items	7,027	6,105
Deduct other items:		
Minority interest and affiliated companies	64	22
Amortization of intangible assets net of income taxes	122	185
	186	207
Net earnings for the period	\$ 6,841	\$ 5,898
Net earnings per Class "A" share on a weighted average basis	45.8¢	39.7¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	1978	1977
	(\$,000)	
Source of funds:		
Operations –		
Net earnings for the period	\$ 6,841	\$ 5,898
Depreciation and amortization of fixed assets	1,159	895
Other	162	308
	8,162	7,101
Increase in bank loans and notes payable due to foreign currency movements	1,555	1,889
Increase in minority interests in businesses acquired previously	254	(28)
Issue of Class "A" shares	128	
	10,099	8,962
Application of funds:		
Non-current assets and liabilities relating to insurance businesses and subsidiaries acquired –		
Goodwill and other intangible assets	618	2,655
Fixed and other assets	70	194
	688	2,849
Less notes payable – long-term portion	229	15
Net non-current assets acquired	459	2,834
Increase in fixed and other assets (net)	3,843	2,194
Price escalation adjustments in connection with businesses previously acquired	802	
Decrease in bank loans and notes payable	2,786	2,249
Decrease (increase) in income taxes due beyond one year	324	(72)
Decrease in deferred credits	1,092	2,229
Dividends paid	2,395	2,227
	11,701	11,661
Net decrease in working capital for the period	(1,602)	(2,699)
Working capital beginning of period	3,451	3,639
Working capital end of period	\$ 1,849	\$ 940

LES COMPAGNIES
REED STENHOUSE,
LIMITÉE

À nos actionnaires :

Il nous fait plaisir de rapporter, pour les six mois terminés le 31 mars 1978, que les revenus de votre compagnie montrent une augmentation de 20% et les bénéfices nets, une augmentation de 16% de plus qu'au cours de la même période l'an dernier.

Les conditions commerciales au cours de la période ont été difficiles dans la plupart des pays où nous transigeons des affaires. Le vrai progrès économique a brillé par son absence. Ce fait, de même qu'une diminution générale des taux de primes a augmenté la concurrence pour les affaires sur la plupart des marchés importants. Nous avons donc, par conséquent, augmenté les frais qui sont reflétés dans nos marges de profits. Les frais de développement continu de nos opérations aux Etats-Unis constituent aussi un facteur dans nos résultats.

Nous demeurons confiants que nos objectifs de rentabilité pour l'exercice courant seront atteints.

Récemment, nous avons continué notre expansion sur le plan international par l'établissement d'un bureau de courtage de réassurances à Madrid, Espagne et par l'ouverture d'un bureau à Whitehorse, Yukon, Canada. Ces additions portent à 147 le nombre de bureaux que nous maintenons actuellement dans 29 pays.

A l'assemblée de vos administrateurs récemment, notre 37e dividende consécutif fut déclaré au taux de 8.01¢ par action de classe "A", payable le 30 juin 1978 aux actionnaires inscrits aux registres le 12 juin 1978.



J. W. Whittall
Président et chef de la direction

Toronto, Canada
Le 18 mai 1978

ÉTAT FINANCIER CONSOLIDÉ

Pour les six mois terminés le 31 mars

(sous réserve de vérification et rectification en fin d'exercice)

ÉTAT CONSOLIDÉ DES BÉNÉFICES

	1978	1977
	(\$,000)	
Commissions et honoraires gagnés – nets	\$70,222	\$58,343
Dépenses d'exploitation	59,497	48,353
Profits d'exploitation	10,725	9,990
Revenu de placement et de location – net de l'intérêt sur la dette à long terme	2,864	2,353
Bénéfice avant les impôts sur le revenu et autres postes	13,589	12,343
Impôts sur le revenu	6,562	6,238
Bénéfice avant autres postes	7,027	6,105
Autres postes à déduire :		
Intérêts minoritaires et compagnies affiliées	64	22
Amortissement des valeurs immatérielles moins impôts sur le revenu	122	185
	186	207
Bénéfice net pour la période	\$ 6,841	\$ 5,898
Bénéfice net par action de classe "A" sur la base d'une moyenne pondérée	45.8¢	39.7¢

ÉTAT CONSOLIDÉ DE L'ÉVOLUTION DE LA SITUATION FINANCIÈRE

	1978	1977
	(\$,000)	
Provenance des fonds :		
Exploitation –		
Bénéfice net de la période	\$ 6,841	\$ 5,898
Amortissements des immobilisations	1,159	895
Autres	162	308
	8,162	7,101
Augmentations des emprunts bancaires et billets à payer attribuables aux mouvements des devises étrangères	1,555	1,889
Augmentation des intérêts minoritaires dans des affaires acquises précédemment	254	(28)
Emission d'actions de classe "A"	128	
	10,099	8,962
Utilisation des fonds :		
Éléments d'actif et de passif à long terme relatifs à des entreprises d'assurance des filiales acquises		
Achalandage et autres éléments d'actif immatériels	618	2,655
Immobilisations et autres éléments d'actif	70	194
	688	2,849
Moins billets à payer – partie à long terme	229	15
Éléments d'actif nets à long terme acquis	459	2,834
Augmentation des immobilisations et autres éléments d'actif (net)	3,843	2,194
Adjustement de l'escalade des prix en rapport aux affaires précédemment acquises	802	
Diminution des emprunts bancaires et des billets à payer	2,786	2,249
Diminution (augmentation) des impôts sur le revenu exigibles à plus d'un an	324	(72)
Diminution des crédits reportés	1,092	2,229
Dividendes payés	2,395	2,227
	11,701	11,661
Diminution nette du fonds de roulement pour la période	(1,602)	(2,699)
Fonds de roulement au début de la période	3,451	3,639
Fonds de roulement à la fin de la période	\$ 1,849	\$ 940

LES COMPAGNIES

REED STENHOUSE,
LIMITÉE

Rapport
aux actionnaires
en date du
31 mars 1978



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